

457 Deferred Compensation Plan Investment Options
Structure and EIAC Recommendation Summary
Montana Public Employees' Retirement Board – June 1, 2006

The EIAC met on May 10, 2006 to continue its review of the 457 Plan investment options. The review began on March 8, 2006 with Howard Biggs, of Arnerich, Massena & Associates, Inc., presenting the annual report of the investment options and compliance with the benchmarks and criteria established in the Board's adopted investment policy statements. The March 8, 2006 EIAC meeting resulted in 5 recommendations. The May 10, 2006 EIAC meeting resulted in 5 additional recommendations. Recommendations are noted in and after the following chart.

The following chart summarizes the 457 deferred compensation investment option structure per the March 2002 Board decisions and directive. It also indicates changes made to the structure due to Board decisions and directive after March 2002.

March 28, 2002 Board minutes: 457 Plan Structure – Mr. Klawon made a motion to adopt the following structure of the 457 Deferred Compensation Plan. Mrs. Lambert seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye. Total of 20 funds.

March 28, 2002 Board Fund Option Directive	Fund Meeting Board Directive	Plan in Compliance
1 stable value fund	Montana Stable Value Fund Managed by PIMCO Wrapped by Aegon	Yes
2 bond funds - 1 high yield - 1 corporate	Neuberger Berman High Income Investor Added 2005 Probation 2006 PIMCO Total Return Added 2002	Yes
2 balanced funds (2002)	Dodge & Cox Balanced Prior to 1997	Yes*
Modified 3/25/2004 to <u>1 balanced fund</u>	Janus Balanced Fund discontinued 3/25/04; replaced by Dodge & Cox Balanced	
4 large cap equity funds - 1 value - 1 growth - 1 blend - 1 index	Davis New York Venture A Prior to 1997 2006 "blend components" noted; no action TCW Galileo Select Equities N Added 2002 Fidelity Contrafund Prior to 1997 2006 report classifies as "growth" Vanguard 500 Index Institutional Prior to 1997; Institutional in 2005	Yes

March 28, 2002 Board Fund Option Directive	Fund Meeting Board Directive	Plan in Compliance
2 mid cap equity funds - 1 value - 1 growth	Hotchkis & Wiley Mid Cap Value Added 2004 Artisan Mid Cap Investors Added 2003 Probation 2006; due to asset growth and capitalization drift; termination pending search results and attached recommendations	Yes
	----- Neuberger Berman Genesis Trust Added 1998 Probation 2004 & 2005 The Neuberger Berman Genesis Trust was added as a small cap value fund . Over the years, it has “shifted” between small cap blend, mid cap growth and mid cap blend. Keeping the Neuberger Berman Genesis Trust would modify the Board's 2002 structure decision. See attached recommendation	NO
2 small cap equity funds - 1 value - 1 growth	Munder Small Cap Value Fund Added 2005 RS Diversified Growth Added 2000 Probation 2005 Terminate and replace 2006; see attached recommendations	Yes
	----- Neuberger Berman Genesis Trust Added 1998 Probation 2004 & 2005 The Neuberger Berman Genesis Trust was added in 1998 as a small cap value fund . Over the years, it has “migrated” from small cap value to small cap blend to mid cap growth to mid cap blend. Keeping the Neuberger Berman Genesis Trust would modify the Board's 2002 structure decision. See attached recommendations	NO
2 global funds - 1 value - 1 growth	American Funds New Perspective Added 2004 Mutual Discovery Z Prior to 1997	Yes

March 28, 2002 Board Fund Option Directive	Fund Meeting Board Directive	Plan in Compliance
2 international funds - 1 value - 1 growth	Templeton Foreign Prior to 1997 Terminate and replace 2006; see attached recommendations Artisan International Investors Added 2002	Yes
3 asset allocation funds	5 asset allocation funds currently in Plan	NO**
1 socially responsible fund	Calvert Social Investment Equity A	Yes***

Total Number of Funds could increase to 24 (4 over March 2002 Board directive of 20). Following is a summary of the Board action leading to the increased funds:

***March 25, 2004 Board minutes:** *(decreased investment options by 1)*

Janus Balanced – growth fund. Recommendation to delete due to compliance and performance issues; does not meet investment guidelines in the IPS. Replace with Dodge and Cox Balanced Fund already in the plan.

Mr. Pierce made a motion that the Board accept and approve all EIAC recommendations for investment option changes for the 457 Deferred Compensation Plan. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

****April 24, 2004 Board minutes:** *(currently add 5 instead of 3; increased investment options by 2)*

Mr. Klawon made a motion to accept the EIAC recommendation to drop the GWFS Profile funds and negotiate with GWFS for better pricing for custom asset allocation funds. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Mr. Pierce and President Teichrow voting nay.

***** March 27, 2003 Board minutes:** *(increased investment options by 1)*

Mr. McGee made a motion to accept the EIAC recommendation and add the Calvert Social Investment Equity Fund A to the 457 Deferred Compensation Plan as its socially responsible fund. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Mrs. Kasten voting nay.

May 10, 2006 EIAC Recommendations
457 Deferred Compensation Plan Investment Options

Recommendation #1: Mid Cap Growth Fund

Terminate the Artisan Mid Cap Investors and **replace** with the Munder Mid Cap Core Growth.

EIAC rationale for Munder Mid Cap Core Growth: based upon manager search conducted by Arnerich, Massena & Associates, the Munder Mid Cap Core Growth fund has:

- good returns
- low volatility
- low expense ratio

EIAC vote: unanimous.

Recommendation #2: Small Cap Growth Fund

Replace the terminated RS Diversified Small Cap Growth fund with the Managers AMG Essex Small/Micro Cap Growth.

EIAC rationale for the Managers AMG Essex Small/Micro Cap Growth: based upon manager search conducted by Arnerich, Massena & Associates, the Managers AMG Essex Small/Micro Cap Growth fund has:

- better performance
- less volatility.

EIAC vote: unanimous.

Recommendation #3: International Value Fund

Replace the terminated Templeton Foreign Fund with the Dodge & Cox International Stock fund.

EIAC rationale for the Dodge & Cox International Stock fund: based upon manager search conducted by Arnerich, Massena & Associates, the Dodge & Cox International Stock fund has:

- better performance
- outstanding risk/reward profile
- low expenses.

EIAC vote: unanimous.

The next two recommendations add investment classes and categories to the 2002 Board structure. Both recommendations are the result of retaining the Neuberger Berman Genesis Trust fund as it has shifted orientation. Retention of the Neuberger Berman Genesis Trust fund, by default, added investment classes and categories outside the Boards' 2002 investment structure.

Recommendation #4: Small Cap Blend Fund

Add the Vanguard Small Cap Index as a small cap blend fund. The small cap blend class and category was vacated by the Neuberger Berman Genesis Trust fund as it migrated from its original small cap value to small cap blend to mid cap growth to mid cap blend.

EIAC rationale for the Vanguard Small Cap: the fund will fill the class and category vacated by the Neuberger Berman Genesis Trust. The fund is:

- low cost
- well diversified
- no tracking errors (will not under perform the index)
- a nice passive (as opposed to actively-managed option).

EIAC vote: unanimous.

Recommendation #5: Mid Cap Blend Fund

Retain the Neuberger Berman Genesis Trust fund as a mid cap blend investment option. The Board terminated the Neuberger Berman Genesis Trust fund in March 2006 from the small cap blend class and category. Assets in the Neuberger Berman Genesis Trust fund are to remain in the fund and not redirected to the “new” small cap blend fund.

EIAC rationale for retaining the Neuberger Barman Genesis Trust fund: the fund has had satisfactory past performance and is popular with plan participants as evidenced by participants (800+) and assets (8 million +).

EIAC vote: unanimous.

Possible Board Motions:

Option A: I move we accept and approve the above EIAC recommendations – 1 through 5 - for investment option changes within the 457 Deferred Compensation Plan.

Option B: I move we accept and approve the following specified EIAC recommendations for investment option changes within the 457 Deferred Compensation Plan (define which recommendations to accept and approve).

Moved by: _____

Seconded by: _____

Vote: _____